



TOWN OF GRAFTON
GRAFTON MEMORIAL MUNICIPAL CENTER
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**BOARD OF SELECTMEN
MEETING AGENDA**

May 10, 2018
Municipal Center, Conference Room A
7:00 p.m.

CALL TO ORDER

ANNOUNCEMENTS

PUBLIC COMMENTS

1. SCHEDULE

- a) Joint meeting with Finance Committee and Town Moderator to review logistics for Special & Annual Town Meeting on May 14, 2018

ADJOURN

Grafton State of the Town Message
May 9, 2018
Finance Committee
Chairperson, Edward A. Prisby

I. Introduction

The Finance Committee is proud to present to you a balanced FY2019 balanced budget, which accounts for both Grafton's growing demand for services, and Grafton's annual income, which is constrained by Massachusetts Proposition 2.5 to annual 2.9% increases. Because Grafton's expenses this year increased 4.9% - or almost twice our allowable percentage under Proposition 2.5 – for the first time since the 2014 override, Grafton will be taxing to maximum levy capacity.

As has been said, a budget is merely a reflection of your values and priorities. So then, please allow us to present to you a reflection of our town's values and priorities for fiscal year 2019.

II. Values and Priorities

This year's total budget of **\$61,708,405**, represents an increase of **4.9%** over last year's town budget. This represents approximately \$2.89 million dollars of new revenue, of which \$1.7M is dedicated to the Grafton Public Schools.

Additionally, Grafton has proposed spending **\$846,194.00** on capital items identified by the town administrator and the Capital Planning and Improvement Committee, and proposes transferring this amount from Free Cash in addition to funds still existing in articles, totaling \$74,000.

Unfortunately, for the second straight year, Grafton will not be contributing additional funds to our Stabilization account, which in this budget cycle will constitute approximately 5.7% of our annual budget.

Schools

After Grafton voters passed the 2014 override, the Board of Selectmen informally agreed with the School Committee that the school budget would increase at 5.25% per year moving forward. This rate of increase was designed to allow the override funds to maintain until fiscal year 2020, while maintain the quality of Grafton Public Schools.

This year, to achieve a level service budget, Superintendent James Cummings determined that the school department's budget would need to grow at 7.3%. Realistic budgetary constraints, however, have limited the school department's budget growth to the previously agreed-upon 5.25% figure. The school budget totals \$35,007,729, including \$1.7 million dollars in new money. School side cost drivers include salary increases and out-of-district special education costs.

Town

The Town side of the budget grew at a lien and modest 3.4% this year, although non-union salary growth increased by ___% [NEED THIS FIGURE]. The total town side of the budget proposed is \$26,700,676. There are no significant new initiatives proposed.

III. Financial Trends

The Finance Committee's goal in the budget process is to identify both positive and negative financial trends in the town, and provide Grafton voters with the information that they need to make informed financial decisions for the town.

Those trends include: 1. Immediate financial status; 2. Long term financial projections; 3. our per capita revenue; 4. Economic growth; 5. our reliance on one-time revenues to balance our budget; 6. Growth of employee benefits as a percentage of wages; 7. Growth of our unfunded (OPEB) liabilities; 8. Level of our cash reserves; and 9. Reliance on state aid.

Present Financial Status

In this snap shot of time, Grafton is in favorable financial condition. We have presented a balanced \$58,758,324 budget that funds our operational and immediate capital needs. **Grafton has reported over \$ _____ million dollars [NEED THIS FIGURE] in reportable income to the Massachusetts Department of Revenue.**

Our unemployment rate is 2.5%.

Our average single family tax bill for FY18 was \$6,262, which compares favorably to comparable communities. Our single tax rate is \$16.59, nineteen cents per thousand more than last year.

Our average single family home value as of 2017 was \$377,488.

We have a bond rating of AA+, one step down from the maximum AAA rating.

Long Term Financial Projections

Grafton's long term financial projections, however, are not favorable.

The Town Administrator has put together a long term financial forecast that takes into account already existing obligations, such as police and teacher contracts. The forecast assumes \$1 million dollars in FY 2020 and 2021 in new growth from development, as well as increased c.70 aid of \$30 per pupil.

If, however, economic trends over the past five years remain consistent, Grafton is unlikely to receive the outsized economic growth income forecast in our projections. Typically, economic growth averages approximately \$518,000 per year recently. If Grafton receives \$1,000,000 in new growth revenue next year according to the administration's forecast, we will face a potential deficit of \$86,907. If we fall short on our growth expectations, the deficit will be compounded.

Because each year Grafton must balance its budget, in order to maintain even its present level of services past 2020, the town will need to see significant new revenue either from economic growth or another increase in our levy limit. Or, in the alternative, we will be forced to reduce our level of services that we provide to the town.

Per Capita Revenue

Grafton's trend in per capita and household income continues to be favorable. Grafton's income per household has risen to \$92,724, and Grafton's per capita income continues to trend up from \$38,800 ten years ago to over \$47,000 today.

Economic Growth

Grafton's economic growth, while it contributes to our tax base favorably, continues to exhibit flat annual growth below two percent, and since 2009, has made up approximately 9% of the town's total value.

Grafton should continue to emphasize economic growth as a means of supplementing its residential tax burden. As demonstrated in tonight's warrant, the Town is actively working to develop the Route 30 corridor, which potentially could bring in millions of dollars in new revenue to the town. Grafton recently has hired a new Economic Development Coordinator who is leading Grafton's effort to assist in marketing this area with the Commonwealth, as well as potential economic development cites on Worcester Street and South Grafton.

Reliance on one-time revenue in operating budget

[Slide E] Grafton traditionally, and wisely, refrains from using one-time revenue such as free cash for on-going operational expenses. As a percent of our operational expenditures, one-time funds make up only .51% of the budget, which is well within acceptable parameters.

Growth of Benefits as a percentage of employee income

[Slide G] It is no secret that the rising cost of healthcare has contributed to enormous strain on municipal budgets around the Commonwealth. Grafton is no exception. Despite the rising cost of healthcare, the percentage cost of health benefits in employee compensation in Grafton remains level at approximately 13%.

OPEB Liability Growth

Our outstanding OPEB liability remains a concern. Although we contribute to reducing this amount annually, the outstanding obligation is valued at over \$30M. Grafton needs a better solution to mitigating this continuing liability.

Cash Reserves Level

Grafton's cash reserve level in stabilization is less favorable than in past years, at approximately 5.7% of the town budget. Best practices, as well as Appendix A, Section D3 of our own budget book, recommends keeping between 5 – 10% general fund operating revenues in stabilization. Recent withdrawals and failure to allocate funds to stabilization have drawn down that figure. Nor should "free cash" be considered "reserve funds" for this purpose, since the origin, keeping and disposition of free cash are not the same as stabilization.

Keeping stabilization funds at between 5-10% of our annual budget allows us to maintain a favorable rating with credit bureaus, which reduces our long term borrowing costs, saving the town money. It should be noted that Grafton will not contribute to stabilization this year from free cash. Grafton leaders should take care to contribute to stabilization in the future.

Additionally, Grafton will have \$_____ in free cash[looking for final confirmation], which also is a relatively historic low over the past ten years, limiting our ability to pay for unforeseen capital needs.

State Aid

[Slide I] State aid to Grafton is less favorable than it once was. Since the 2008 recession, state aid has decreased as a percentage of our operating budget from a high of 27%, to approximately 23% now. That represents a decrease in aid of almost three million dollars annually. As you can see from our long term projections that income is sorely missed.

This also comes at a time we've seen a dramatic increase in Grafton's state-mandated costs in education over the past five years. Not only are we getting less money from Beacon Hill as a percentage of our spending, but we're spending more due to mandates from Beacon Hill.

IV. Conclusion

In conclusion, Grafton presents a balanced FY19 budget, maintains a AA+ bond rating, and our ability to provide quality town services is strong at present. Grafton leaders, however, must continue to vigilantly monitor these economic indicators as we move forward, to maintain our ability to provide our present level of services. Where several of our financial indicators present as "unfavorable", Grafton may soon be forced to make difficult choices to maintain its current level of services, beyond FY19.

The Finance Committee would like to thank Susan Fiacco, Anita Patel, the School Committee, Jay Cummings, Dan Gale and the Selectmen for their work in collaborating on this annual message.

DRAFT

Total FY19 Budget: \$61,662,139

Free Cash on Capital in ATM: \$860,368

You'd think this would be easy enough for me to find, but do you have an accurate per household income figure you're using for Grafton?

Median Household Income was last estimated by CMRPC in 2009 to be \$89,649 for Grafton residents.
(<http://www.cmrpc.org/sites/default/files/community-snapshots/Grafton.pdf>)

Income per capita was last calculated by DLS at \$47,178 for Grafton residents.
(https://dls.gateway.dor.state.ma.us/reports/rdPage.aspx?rdReport=Socioeconomic.us_incomepercapita_main).

What percentage of one-time funds make up the operational budget? Last year it was .51%.

0% in FY19

What was the total town side non-union salary growth?

1.62%

What was our reportable income to the DoR?

FY19 Cherry Sheet: DOR Income = \$874,673,000

https://dls.gateway.dor.state.ma.us/reports/rdPage.aspx?rdReport=DOR_Income_EQV_Per_Capita&rdScrollX=0&rdScrollY=0

To add to the pile, could we get an updated total Stabilization fund balance after this news from the school committee, and could you confirm the percentage of stabilization relative to operating expenses? My estimation puts it in the 5.7% range, but I want to be sure.

Current Reserves:

FC = 1,576,696

Stabilization = 3,591,221

Municipal Capital Stabilization = 119,398

Total = 5,287,315

Total FY19 Operating = 60,162,139 (Total operating less Road Stabilization)

Reserves as % of budget = 8.79% of total budget

Scenario 1 (Town 1st proposal)

Free Cash used in STM: 30,659 (Destination Imagination)

FC used in ATM: 860,368 (Capital)

Total FC Used: 891,027

Balance of Free Cash: 685,669

Stabilization used STM: 350,000 (Creeper Hill)

Stabilization ATM: 300,000 (School)
Total: 650,000
Balance after TM: 2,941,221

Total Reserves as % of Operating after Spring Town Meeting with this scenario: 6.23%

Scenario 2 (Fin Comm Supported)
Free Cash used in STM: 30,659 (Destination Imagination) & Creeper Hill 350,000
FC used in ATM: 860,368 (Capital)
Total FC Used: 1,241,027
Balance of Free Cash: 335,669

Stabilization ATM: 300,000 (School)
Total: 300,000
Balance after TM: 3,291,221

Total Reserves as % of Operating after Spring Town Meeting with this scenario: 6.23%

Scenario 3 (new school proposal)
Free Cash used in STM: 30,659 (Destination Imagination) & Creeper Hill \$350,000
FC used in ATM: 860,368 (Capital)
Total FC Used: 1,241,027
Balance of Free Cash: 335,669

Stabilization ATM: 200,000 (School)
Total: 300,000
Balance after TM: 3,391,221

Total Reserves as % of Operating after Spring Town Meeting with this scenario: 6.39%

History of Stabilization Account:

October 2012: \$95k transferred in
October 2013: \$30k transferred in
May 2015: \$138k out for Snow and Ice
May 2016: \$100k out for OPEB
October 2017: \$200k transferred in

For a delta of +\$86,976 transferred in from 2012-2017